

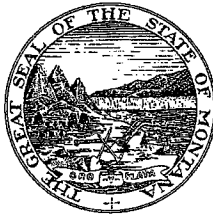
Montana State Senate

EXHIBIT 8
DATE 4-20-07
SB 189

SENATOR KELLY GEBHARDT

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February 2, 2007

Chairman Greg Jergeson
Montana Public Service Commission
1701 Prospect Ave., Vista Building
Helena, MT 59601

Dear Commissioner Jergeson,

At the Hearing on SB 189 last week Senator Kitzenberg made a reference to companies keeping two sets of books. In subsequent testimony by Mr. Gibson and Mr. Alke we heard that there may be three or four sets of books that these companies are required to keep.

How do these books differ and do you use all of them when you determine whether a company is overearning? I would appreciate an explanation about how all these sources of data differ and what types of information you actually use in a rate case.

It would also be helpful if you could explain what information you have used to reach your preliminary assessment that Qwest is earning too much. Is it just the report they file with the PSC or does it include any of these other types of books the company apparently has to maintain?

I appreciate your help in better understanding these issues as I consider the legislation before the committee. I will be sending a similar request to Qwest and MDU.

Thank you,

Senator Kelly Gebhardt



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February 6, 2007

Senator Kelly Gebhardt
State Capitol
PO Box 200500
Helena MT 59601

RE: SB 189-related questions

Dear Senator Gebhardt:

This letter responds to your letter to me dated February 2, 2007 in which you asked questions about utility accounting and the PSC's concern that Qwest may be over-earning.

Every state regulatory commission as well as the Federal Energy Regulatory Commission and the Federal Communications Commission rely heavily on detailed accounting information from utilities. Regulatory accounting systems used by the Montana Public Service Commission are based on the Uniform System of Accounts (USOA) prescribed by the Federal Energy Regulatory Commission and the Federal Communications Commission.

When a utility files a general rate case, it must meet the Montana PSC's minimum filing requirements which require detailed USOA-based financial schedules. Those schedules must support the utility's revenues, expenses, rate base and rate of return. For electric, gas and private water utilities' minimum filing requirements, see ARM 38.5.101 through 38.5.195. For telephone utilities see ARM 38.5.2801 through 38.5.2821.

The Montana PSC determines the information which utilities must submit in their annual reports to the PSC. See § 69-3-203, MCA. This financial information is also USOA-based.

Utilities do keep other sets of financial records for other than regulatory ratemaking purposes. The Securities and Exchange Commission has accounting standards which must be met by utilities which issue securities. The Montana PSC also regulates the issuance of securities by electric and gas utilities. See §§ 69-3-501 through 69-3-507, MCA. Audited financial statements presented in annual reports are used by investors to get reliable information on the financial condition of a company.

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February 6, 2007

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Taxing authorities at local, state and federal levels require detailed information to assess various forms of taxes. Actual taxes paid and taxes reflected for ratemaking can and will be different. Depreciation claimed on a tax return and depreciation used in ratemaking can and will be different. The valuation used by a taxing authority and the valuation used for ratemaking can and will be different.

The PSC's concern that Qwest may be over-earning is based on the financial information provided by Qwest in its annual reports to the PSC. In the latest two Qwest annual reports, the reported intrastate regulated rate of return was over double the return authorized by the PSC in Qwest's last rate case. Qwest disputes the suggestion that the company may be significantly over-earning. There is a pending Montana Supreme Court case related to the PSC's investigation into Qwest's rates and earnings and, specifically, to a PSC information request to Qwest in that proceeding.

The limited financial information that is reported annually to the PSC by utilities provides important ongoing information about regulated utility operations, income, revenues, expenses, etc., and may, as in the case of Qwest's earnings, raise a "red flag" that prompts a PSC investigation. However, a general rate case in which the detailed financial information required by the PSC's minimum filing requirements is available for review and analysis by the PSC and parties is the appropriate venue to fully review and analyze a regulated utility's finances and to make a determination whether rates are just and reasonable.

Please let me know if I can provide further information.

Sincerely,



Greg Jergeson
Chairman

Cc: Commissioners
Committee members